

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



June 2, 2005

FOSTER CARE AUDITS AND RATES LETTER (FCARL) NO. 2005-02

TO: ALL GROUP HOME PROVIDERS
ALL COMMUNITY TREATMENT FACILITY PROVIDERS
ALL FOSTER FAMILY AGENCIES
ALL REGIONAL CENTER GROUP HOMES
ALL REGIONAL CENTER FOSTER FAMILY AGENCIES
ALL COUNTY WELFARE DIRECTORS
ALL CHIEF PROBATION OFFICERS
ALL COUNTY MENTAL HEALTH DIRECTORS

SUBJECT: FINANCIAL AUDIT REQUIREMENTS, ISSUES, AND UPDATES

This letter is to provide you with important information regarding the financial audit report (FAR) submitted by group home and foster family agency providers. In accordance with Welfare and Institutions Code (W&IC) Section 11466.21(a), a FAR is required as a condition for a non-profit corporation to receive an Aid to Families with Dependent Children-Foster Care (AFDC-FC) rate. As such, we highly recommend that non-profit corporations share this information and/or a copy of this letter with the independent auditor who will be performing your corporation's financial audit.

FAR Requirement for Non-Profit Corporations on an Annual Reporting Schedule that Receive Less Than \$300,000 in Most Recent Fiscal Year

A non-profit corporation that has submitted a FAR annually because of the receipt of combined federal funds of \$300,000 or more must still submit a FAR if information for the non-profit corporation shows that federal revenues fall below \$300,000 for the most recent fiscal year. In this situation, the non-profit corporation must submit the FAR in accordance with Government Auditing Standards no later than six months after the end of the non-profit corporation's most recent fiscal year. In addition, all applicable regulatory requirements specified under Manual of Policies and Procedures (MPP) Section 11-405.2 must be met, including the requirement for the submission of cost data reports.

As specified in MPP Section 11-405.213(b), which addresses a non-profit corporation that expends less than \$300,000 in combined federal funds, "The non-profit corporation's financial audit report...shall be submitted to the Department at least once every three years on a schedule determined by the Department..."

Since federal revenues may fluctuate from year to year, the California Department of Social Services (CDSS) will not automatically establish a triennial FAR reporting schedule upon notification by a non-profit corporation (which has been on an annual reporting schedule) that federal revenues fell below or are expected to be below the \$300,000 federal funding threshold.

To be considered for placement on a triennial reporting schedule, a non-profit corporation must submit: (1) a written request to CDSS for consideration of placement on the triennial schedule; and (2) a FAR for the most recent fiscal year with audited financial statements documenting federal revenues below \$300,000.

If the audited financial statements included with the FAR submitted for the most recent fiscal year confirm that federal revenues are below \$300,000, CDSS will use this fiscal year as the base year in establishing the triennial reporting schedule for the non-profit corporation. The CDSS will provide written confirmation of the established triennial reporting schedule and information regarding the due date for submission of the corporation's next FAR.

If CDSS establishes a triennial reporting schedule for the non-profit corporation, for each year in which a FAR is not required, the corporation must submit cost data, as specified in MPP Section 11-405.213(b)(1), and a completed Federal Revenue Certification form (SR 9) confirming combined federal revenues less than \$300,000, as specified in MPP Section 11-405.213(b)(3).

If combined federal revenues for the non-profit corporation are \$300,000 or above for any year during the triennial period, the corporation must notify CDSS within three months from the end of the corporation's fiscal year and must submit a FAR for the year in accordance with MPP Section 11-405.213(a).

Federal Funding Threshold, Frequency of Financial Audits, Required Audit Standards, and Reporting Requirements

On June 27, 2003 the federal Office of Management and Budget (OMB) published information in the Federal Register that OMB Circular A-133 was revised to increase the federal revenue threshold for an audit from \$300,000 to \$500,000.

However, as currently specified in W&IC Section 11466.21(a)(1), "Any provider who receives \$300,000 or more in combined federal funds shall arrange to have a financial audit conducted on an annual basis, and shall submit the annual financial audit to the department in accordance with regulations adopted by the department."

In addition, MPP Section 11-405.213(a) requires that a non-profit corporation that receives \$300,000 or more in combined federal funds during the fiscal year must have the audit conducted according to OMB Circular A-133 standards.

Accordingly, unless State statute and regulations are changed, an annual FAR which meets OMB Circular A-133 standards will still be required for a non-profit corporation that receives \$300,000 or more in combined federal funds during the corporation's fiscal year. The corporation's FAR and audited cost data reports must be submitted to CDSS no later than nine months after the end of the corporation's most recent fiscal year.

As specified in MPP Section 11-405.213(b), a non-profit corporation that receives less than \$300,000 in combined federal funds during the corporation's fiscal year must submit a financial audit report which meets *Government Auditing Standards* at least once every three years on a schedule determined by CDSS. The corporation's financial audit report and audited cost data reports must be submitted to CDSS no later than six months after the end of the corporation's most recent fiscal year.

If a corporation is unsure of when their next FAR is due and/or what audit standards are required, the corporation should immediately contact the Program and Financial Audits Bureau at (916) 651-9155 for this information to avoid a possible rate termination referral.

Elimination of Financial Audit Cost Reimbursement Authority

With the passage of Senate Bill 1104 (Chapter 229, Statutes of 2004) all audit cost reimbursement provisions previously contained in W&IC Section 11466.21(c) have been eliminated. Accordingly, a non-profit corporation that submits a FAR after June 30, 2004 will no longer be eligible for a partial audit cost reimbursement, even if they met other eligibility criteria. The only exception will be if CDSS approved a good cause request for late submission of a FAR that was due on or before June 30, 2004. Claims for partial audit cost reimbursement received on or before June 30, 2004 will continue to be processed on a case-by-case basis.

Any delays by a non-profit corporation in submitting documents required to support a claim may result in the inability to reimburse the claim since the limited funds appropriated in previous years may no longer be available for audit cost reimbursement purposes.

Providing Updated Information Regarding Non-Profit Corporation's Agent for Service of Process, Board President, and Executive Director/Administrator

The CDSS mails foster care audits and foster care rates correspondence to a non-profit corporation's agent for service of process since this person is designated in the corporation's Articles of Incorporation to receive important legal notices. The CDSS verifies the name and address of the non-profit corporation's agent for service with the California Secretary of State (SOS). In addition to mailing important correspondence to a corporation's agent for service, CDSS sends a courtesy copy of the correspondence to the program's Executive Director/Administrator and the Board President. Because many letters and notices have been returned due to inaccurate information, it is imperative that any changes in the names or addresses of the above referenced corporate officials be reported to the Foster Care Rates Bureau (FCRB), as soon as the changes are made.

In addition, it is important that the agent for service information on file with SOS be accurate and current. The non-profit corporation is required to update this and other information on file with the SOS when the information changes. The SOS also requires a non-profit corporation to periodically file a statement providing certain information, including who is the current designated agent for service. The non-profit corporation is placed in a suspended status if this statement is not filed. A non-profit corporation placed in suspended status is subject to program rate termination since, by law, it is not recognized as a non-profit corporation until the suspension is lifted. To avoid possible rate termination, a corporation should ensure that the SOS is provided with updated and accurate information and that the FCRB is informed of any administrative changes to the non-profit corporation in addition to changes in the Board composition.

If you have any questions regarding financial audit items or issues, please contact the Program and Financial Audits Bureau at (916) 651-9155. To provide updated information regarding administrative changes to your non-profit corporation, please contact the FCRB at (916) 651-9158.

Sincerely,

Original Document Signed By

GLENN FREITAS, Chief
Foster Care Audits and Rates Branch

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- c: African American Foster Parent and Group Home Association
- Association of Community Services Agency
- Association of Minority Adolescents in Residential Care Homes
- Association of Minority Adolescents in Residential Care Homes of Los Angeles County
- California Alliance of Child and Family Services
- Community Residential Care Association of California
- County Welfare Directors' Association
- Foster Care Alliance
- North Valley Children and Family Services, Inc.
- Residential Care Providers Association of Los Angeles County